

BALANCE OF PAYMENTS CONSIDERATIONS

U.S. Estate Tax

As compared with H.R. 5916, this bill would increase estate tax rates on estates of nonresident aliens to a maximum of 25%, thus giving less incentive for foreign investment in the United States than was given by H.R. 5916.

H.R. 13103 would include in the taxable estate of a nonresident alien certain intangible personal property which is excluded from the estate under present law. Such property includes: (a) bank deposits in the United States of a nonresident alien not engaged in business in the United States, and (b) debt obligations of a U.S. person (including a U.S. corporation), the United States, a State or political subdivision of a State, or the District of Columbia, even though such obligations are physically located abroad. There is no doubt that these provisions will have an adverse effect on foreign investment in the United States.

Interest on U.S. Bank Deposits

Since the Revenue Act of 1921, interest on deposits with persons carrying on the banking business paid to persons not engaged in trade or business within the United States has been treated as foreign source income and consequently not subject to U.S. income tax. In considering the merits of this exclusion from taxable income, the House Ways and Means Committee Report (67th Cong., 1st Sess.) indicated that "the loss of revenue which would result if this deduction were allowed would be relatively small in amount, while the exemption of such interest from taxation would be in keeping with the action of other countries and would encourage nonresident alien individuals and foreign corporations to transact financial business through institutions located in the United States." H.R. 13103 would completely change this long-standing rule of law in that interest paid on bank deposits in the United States to nonresident aliens and foreign corporations after December 31, 1971, will become subject to income tax even though the recipient may not be doing business in the United States. The technical change in source definitions made by the bill affecting bank interest during the interim period 1966 through 1971 is not objectionable since it is not less favorable than existing law in its treatment of U.S. bank interest paid to foreigners.

It is submitted that the factors prevailing in today's economy are even more compelling than in the 1920's in requiring that interest paid on U.S. bank deposits to nonresident alien individuals and foreign corporations not doing business in the U.S. continue to be exempt from U.S. taxation. The U.S. balance of payments problem would be made more acute